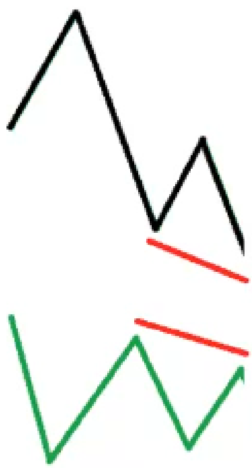
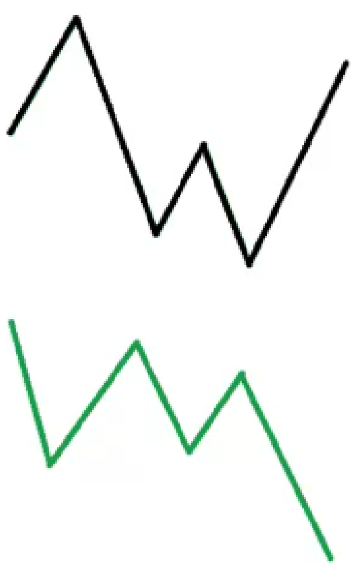
SMT Concepts

Sunday, December 29, 2013 10:04 PM

- Correlation is one of the strongest concepts you can use as a trader. It can help you find "cracks" in the market and track the smart money's actions.
- It would be foolish not to consult the major market averages to determine the current market tone when trading stocks. This also holds true when trading currencies and the USDX is our reference point.
- A rising US Dollar means bearish foreign currency prices.
- A falling US Dollar means bullish foreign currency prices.
- In the picture below, the green line is the Cable (GBP/USD) and the black line is the USDX:



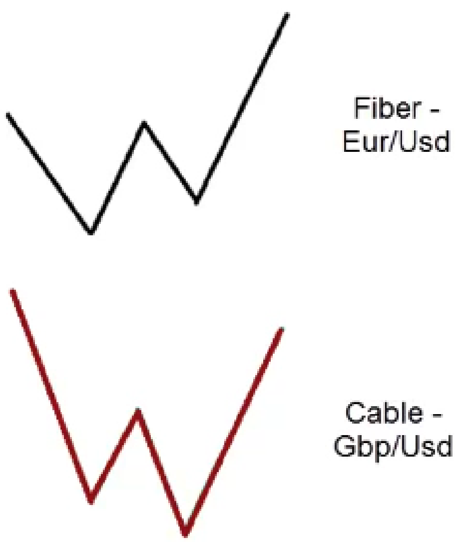
- We see a lower high in the Cable and a lower low in the USDX. When the USDX makes a lower low, we would expect to see a higher high in the Cable.

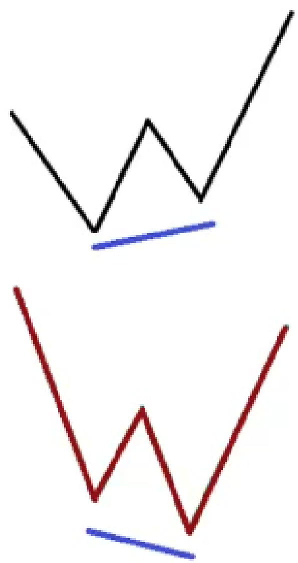


- This concept is how you discern intermediate term price swings in the market.
- This can also be reversed with the green line representing the Cable up top this time:

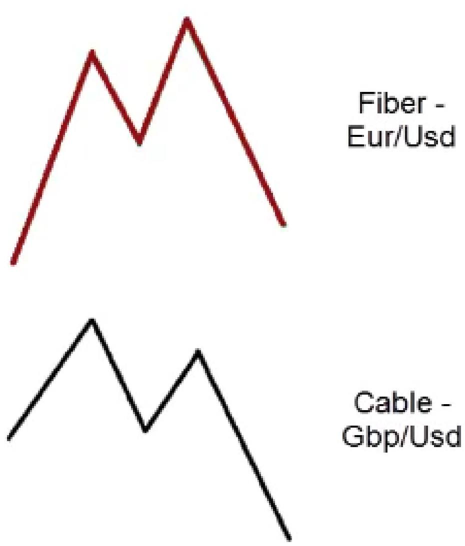


- Look for buy signals in the Cable if the above image occurs in the market.
- When trading you want the USDX and currency pairs to confirm each other, otherwise it is a sucker play.
- SMT divergence confirms Judas Swings.
- You can also use SMT divergence with correlated pairs and not just the USDX. This is called correlated pair divergence.
- In the image below, the black line is the Fiber (EUR/USD) and the red line is the Cable (GBP/USD):

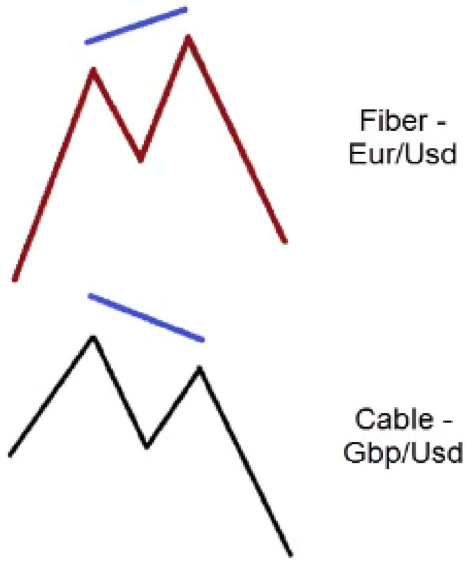




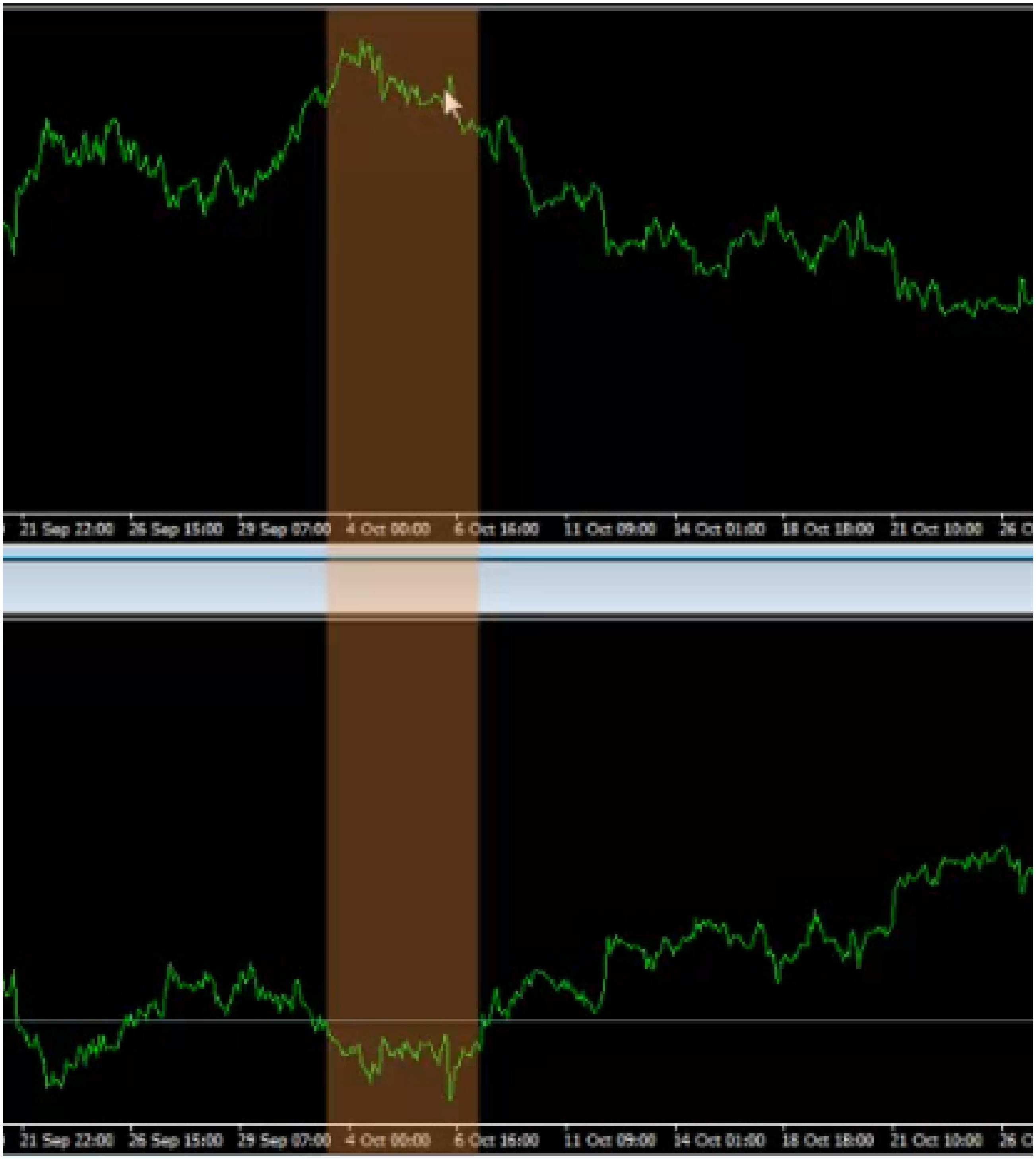
- If you are anticipating a support level to be traded to and the Fiber fails to make a lower low into that higher time frame support level while the Cable succeeds to make a lower low into that same level, then that is bullish SMT divergence. Look for both of them to trade higher because they are closely correlated.
- The more significant price swings will happen on the 15 minute time frame and up.
- This divergence will form at a predetermined support level.
- You are not only looking for SMT divergence to take a trade, you are only using it around predetermined levels with a trade idea in mind.. then once the pattern unfolds, that is the green light to get into the trade.
- Simply invert it for a sell scenario…



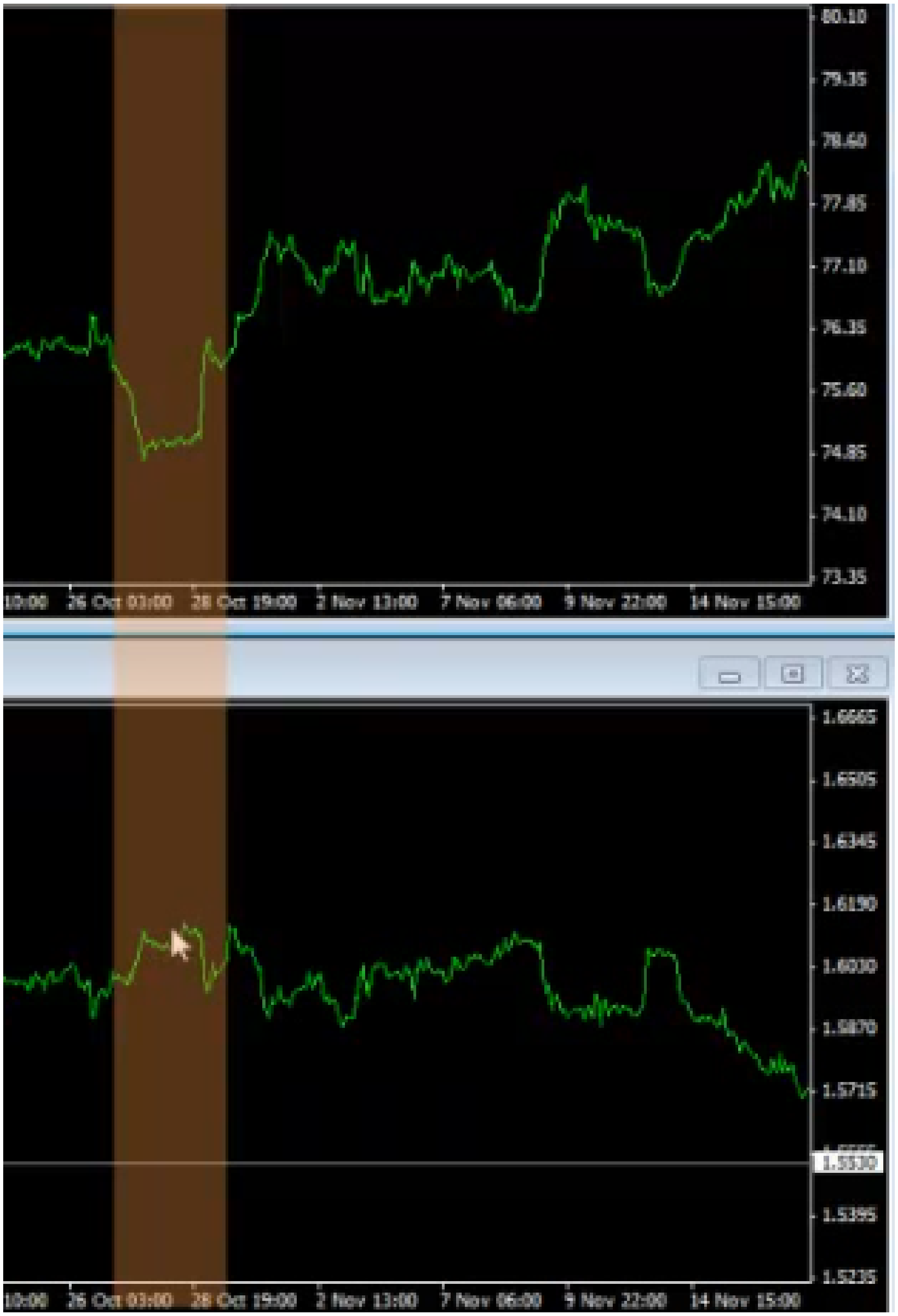
- In this situation there is so much selling going into the Cable that the smart money cannot hide their actions (the flows are so large).



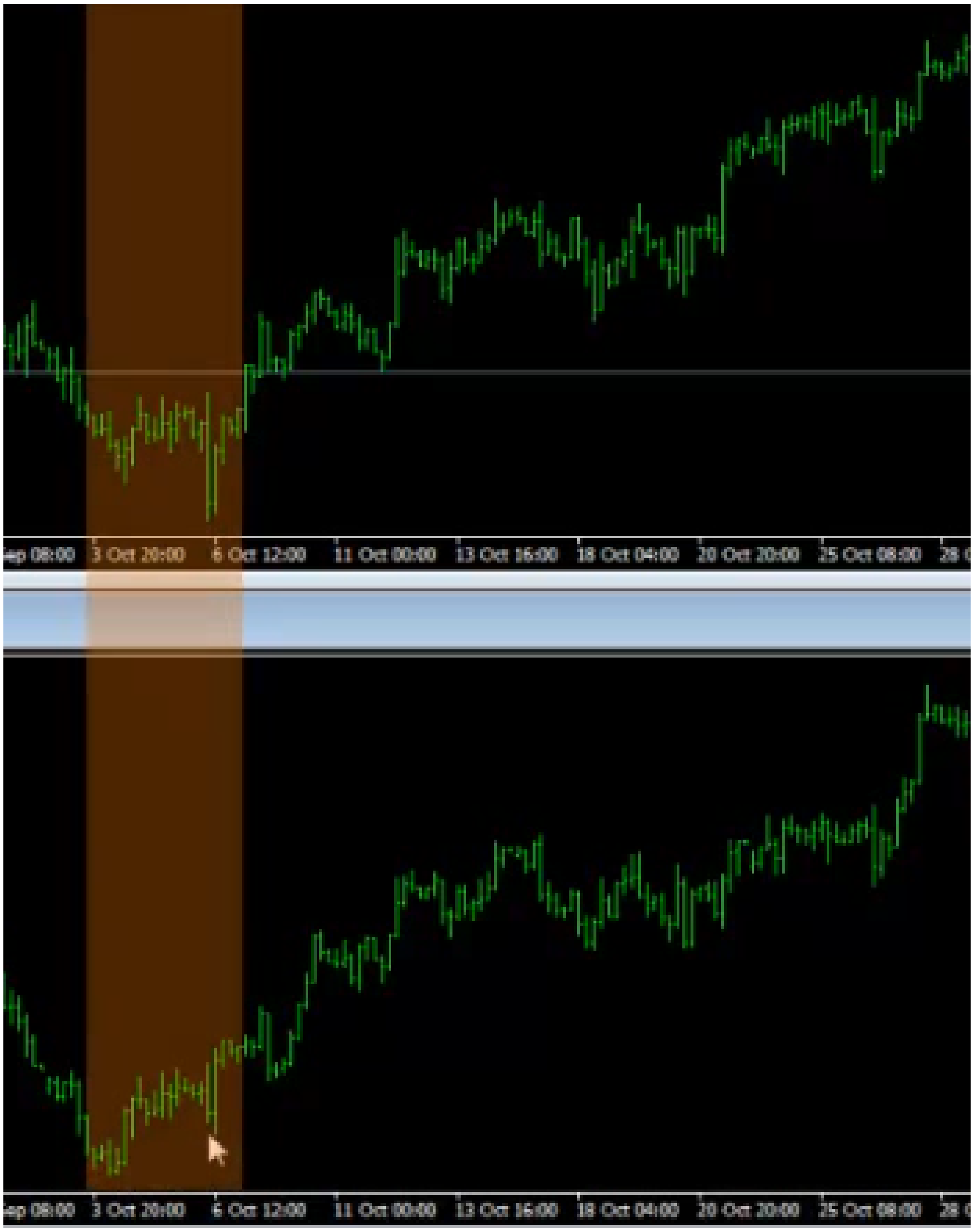
- Expect these to unfold during kill zones.
- In the image below, the top chart is a 1 hour chart of the USDX and the bottom chart is a 1 hour chart of the GBP/USD.. you can see in the highlighted area that the USDX failed to make a higher high while the GBP/USD made a lower low. This resulted in a nice SMT divergence setup:



- The image below shows the USDX failing to make a lower low while the Cable made a higher high.. it consolidated for a bit, but eventually fell off:



- USDX SMT divergence used in conjunction with correlated pair SMT divergence gives you an even greater chance of having a profitable setup.
- In the image below, the top chart is a 4 hour chart of GBP/USD and the bottom chart is a 4 hour chart of EUR/USD. You can see that the GBP/USD made a lower low while the EUR/USD failed to make that same lower low. It resulted in a nice swing upwards.



- Learn to study price action near key S/R levels on higher time frames and we can "anticipate" the actions of smart money.
- When the USDX and correlated pair SMT divergence materialize at a discernible and predetermined support level, we can have confidence that a reaction will unfold.
- Smart money moves large flows and by that very fact, their movements have huge footprints. It cannot be hidden from the informed trader.

NOTE: Note how the USDX SMT divergence compares USDX lows to Cable & Fiber highs. Correlated pair SMT divergence compares Cable highs to Fiber highs.